FitchRatings Genossenschaftliche FinanzGruppe

ESG Relevance:

Navigator Date:	09 Apr 24

Sector Details:

Bank sector:	Retail
Region:	DM Europe
Jurisdiction:	Germany
Sovereign IDR:	AAA Stable
Last sovereign action:	15 Mar 24 Affirmed
Country Ceiling:	AAA
Macro-prudential indicator:	3
Bank systemic indicator:	a

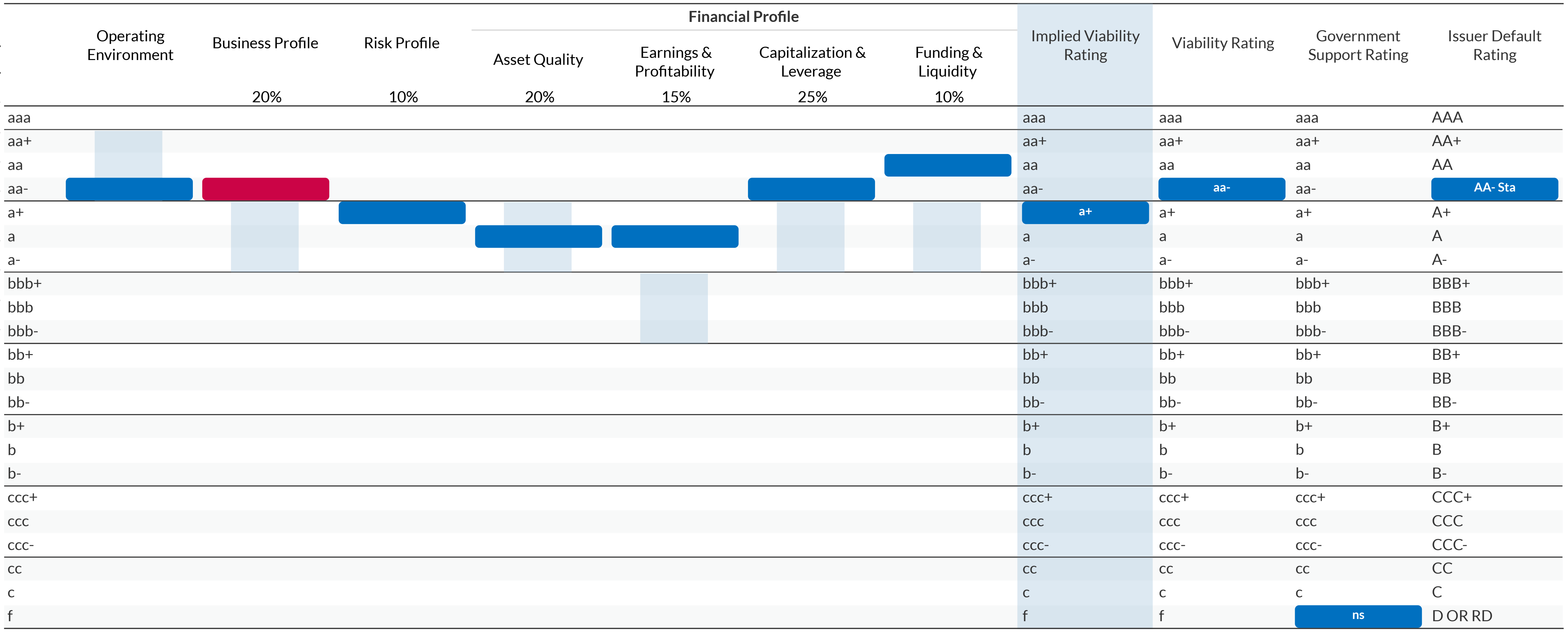
Bank Rating History

Viability Rating (VR)

09 Apr 24	aa-	Affirmed
18 Apr 23	aa-	Affirmed
15 Jun 22	aa-	Affirmed

Issuer Default Rating (IDR)

09 Apr 24	AA- Stable	Affirmed
18 Apr 23	AA- Stable	Affirmed
15 Jun 22	AA- Stable	Affirmed



Legend:

Main Chart: The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Support Assessment: The colours indicate the weighting of each KRD in the assessment.

- Higher influence
- Moderate influence
- Lower influence
- Benchmark-implied score

Applicable Criteria & References

Bank Rating Criteria (Mar 2024)

Macro-Prudential Risk Monitor (Jul 2023)

Sovereign Data Comparator

Analysts

Roger Schneider (+49 69 768076 242)

Justus Roppertz (+49 69 768076 232)

Adjustments

The Viability Rating has been assigned above the implied Viability Rating due to the following adjustment reason(s): Business Profile (positive).

The Operating Environment score has been assigned in line with the implied score.

The Business Profile score has been assigned above the implied score due to the following adjustment reason(s): Business Model (positive).

The Asset Quality score has been assigned in line with the implied score.

The Earnings & Profitability score has been assigned above the implied score due to the following adjustment reason(s): Earnings Stability (positive).

The Capitalisation & Leverage score has been assigned above the implied score due to the following adjustment reason(s): Leverage and Risk-Weight Calculation (positive).

The Funding & Liquidity score has been assigned above the implied score due to the following adjustment reason(s): Deposit Structure (positive).

Commercial Banks: Government Support

Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	**ns**
Government's ability to support D-SIBs	
Sovereign Rating	AAA/Stable
Size of Banking System	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Positive
Government's propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government's propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

Key Rating Drivers

Leading German Retail and Commercial Group: GFG's ratings reflect the group's leading and highly diversified business profile, strong risk-adjusted capitalisation, low leverage, sound asset quality, a record of profitability that is considerably better than most German peers', as well as its outstanding funding profile by international standards. GFG's VR is one notch above the implied VR, reflecting the high importance of its strong business profile for the rating.

Mutual Support Mechanism: GFG is not a legal entity, but a cooperative banking network whose cohesion is ensured by an institutional protection scheme (IPS) managed by the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken e. V. (BVR). GFG's IDRs are group ratings that apply to each member bank, including its central institution DZ BANK and its subsidiaries.

Diversified Business Model: GFG's domestically-focused, stable universal banking business model has delivered stable profits over several economic cycles. It is based on its local banks' strong domestic retail and small SME banking franchise interlinked and supported by DZ BANK group's product providers. The latter includes domestic market leaders in insurance, asset management, real estate, as well as DZ BANK's capital-market business. The business model benefits from a strong strategic alignment between DZ BANK and the local banks with intensified cooperation and cross-selling across GFG.

Conservative Risk Appetite: GFG's risk profile largely reflects the group's cooperative nature with a contained risk appetite. It is underpinned by granular credit exposures based on sound underwriting standards at primary banks, conservative securities portfolios and the benefit of liquidity pooling and transmission through DZ BANK.

DZ BANK's market risk is low and results from modest capital-market activities. GFG's decentralised risk- management structure provides adequate and effective risk controls. Unhedged interest-rate risk at the primary banks is high, resulting from asset/liability duration mismatches, which is a weakness.

Sound Asset Quality; Deterioration Ahead: GFG's sound asset quality remained resilient in 2023 including at the group's central institution despite macro-economic challenges. We expect impaired loans to modestly increase in the next two years, to up to 2% of gross loans due to rising insolvencies in the group's SME and commercial real-estate portfolios.

Resilient Underlying Profitability: GFG's operating profit recovered in 2023 to about 1.7% of its risk-weighted assets (RWAs), driven by reversals of temporary valuation losses (in 2022 from higher interest rates) on the banks' securities portfolios. In addition, the group benefited from higher net interest margins due to slow deposit repricing and healthy business volumes. In 2024 we expect lower operating profit, at about 1.3% of RWAs, due to primarily higher loan impairment charges, but also moderate credit growth and further deposit repricing.

Sound Capitalisation: The local banks and DZ BANK are both well-capitalised, and GFG's leverage ratio is high by international standards. We expect GFG's common equity Tier 1 (CET1) ratio to remain above 15% in the medium term, supported by traditionally high profit retention and slower loan growth than in previous years.

Very Stable Funding: The local banks are predominantly funded by granular, mostly price-insensitive domestic retail deposits, and their structurally large excess liquidity covers most of DZ BANK's short-term funding needs. Primary banks' customer deposit base was largely stable in 2023 despite a notable shift towards time deposits.

DZ BANK provides GFG with reliable access to wholesale markets as a frequent issuer of unsecured debt and the largest German covered bond issuer with an established and geographically diversified investor base.

Key Rating Sensitivities

We could downgrade GFG's and its members' ratings if GFG's impaired loan ratio rises above 3% on a sustained basis, its average operating profit declines to below 1% of RWAs, or its regulatory CET1 ratio falls durably below 13%. A downward revision of our operating-environment score for GFG (aa-/stable) would also put pressure on its ratings.

An upgrade of GFG's and of its members' ratings is unlikely given the already high ratings and in light of significant economic and financial uncertainties. In addition to a domestic environment that would allow higher lending margins, an upgrade would also require greater cost efficiency, which is likely to necessitate further streamlining of the group's structure, especially at the local banks beyond the current merger activity, as well as better asset quality and higher capitalisation.

See Published RAC for the full Key Rating Drivers, Sensitivities, Applicable Criteria and other Disclosures.

Credit-Relevant ESG derivation

Genossenschaftliche FinanzGruppe has 5 ESG potential drivers.

- Genossenschaftliche FinanzGruppe has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

key driver	0	Issues
driver	0	Issues
potential driver	5	Issues
not a rating driver	4	Issues
	5	Issues

ESG Relevance to Credit Rating: 5, 4, 3, 2, 1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

E Relevance: 5, 4, 3, 2, 1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile

S Relevance: 5, 4, 3, 2, 1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Relevance: 5, 4, 3, 2, 1

How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score.All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US $1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.